Systems Operations
Markets and Practices

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Systems Operations (SO)

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SO Definition

Contracting for all or a major portion of an IS operation on a long-term (more than one year) basis

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Systems Operations Characteristics

- Hardware Ownership
  - Vendor-owned
  - Customer-owned

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Systems Operations Characteristics

- Method of Operation
  - Remote
  - On-site
  - Distributed

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Systems Operations Characteristics

- Equipment dedication
  - Single customer
  - Multiple customers

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Systems Operations

- Processing services
  - Vendor-owned equipment
- Professional services
  - Client-owned equipment

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Applications Systems Operations

- Outsourcing of IS applications and IS operations

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Platform Systems Operations

- Outsourcing of computer operations and/or communications networks

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System Operations Market Trends

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Systems Operations Driving Forces

- Core business focus
- Business transition
- Expense reduction
- Capital preservation

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Systems Operations Driving Forces

- Increasing complexity of operations
- Scarcity and expense of required talents
- Costs and problems of systems upgrades

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Perceived SO Inhibitors

- Cost
- Employee loyalty
- Vendor employee turnover
- Loss of control
- Acceptance by user community

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Perceived SO Inhibitors

- Savings uncertainty
- Loss of control
- Service quality
- Organizational threats

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Major Buyer Issues

- Loss of control of IS
- Dependency on vendor
- Vendor industry knowledge
- Reversing the decision

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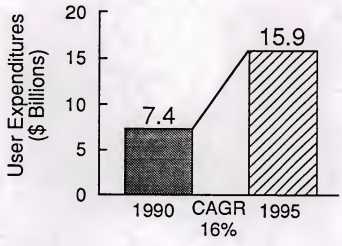
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U.S. Systems Operations Market Forecast, 1990-1995



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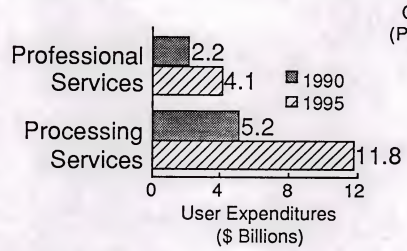
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U.S. Systems Operations Market Forecast, 1990-1995



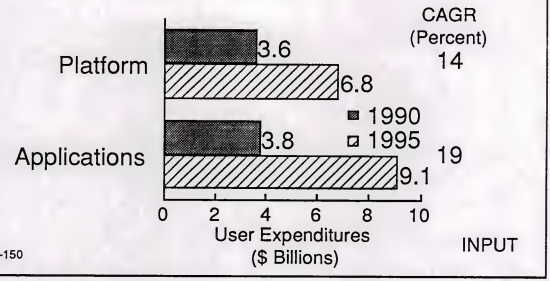
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U.S. Systems Operations Market Forecast, 1990-1995



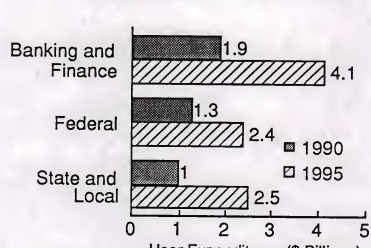
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Systems Operations Market by Industry Sector, 1990-1995



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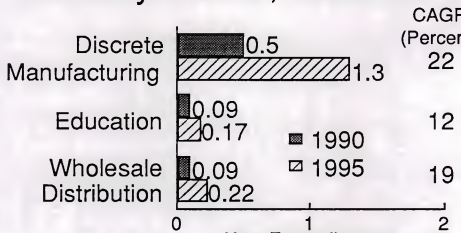
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Systems Operations Market by Industry Sector, 1990-1995



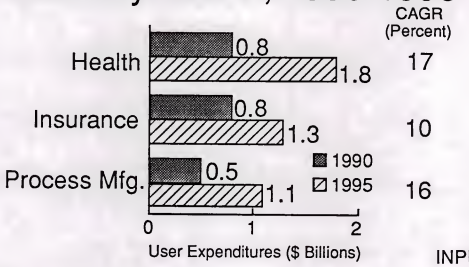
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Systems Operations Market by Industry Sector, 1990-1995



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SO Buyer Practices

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SO Procurement Process

- Evaluation
- Negotiation
- Transition

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SO Procurement Process

Evaluation

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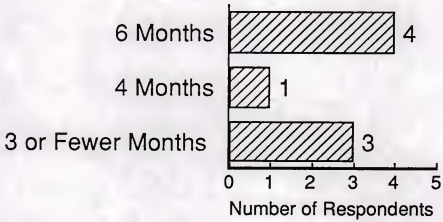
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Length of Evaluation Process



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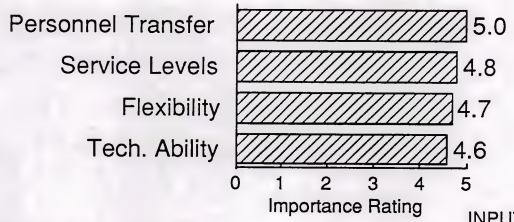
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Vendor Evaluation Criteria



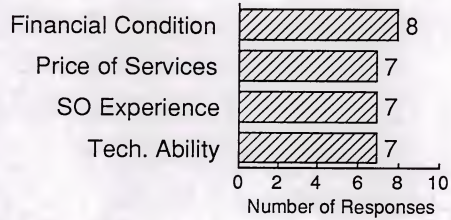
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Vendor Evaluation Criteria



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Evaluation Phase Lessons Learned

- Provide all information to vendor
- Request vendor cost data

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SO Procurement Process

Negotiation

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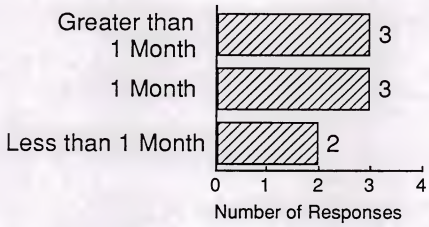
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Length of Negotiation



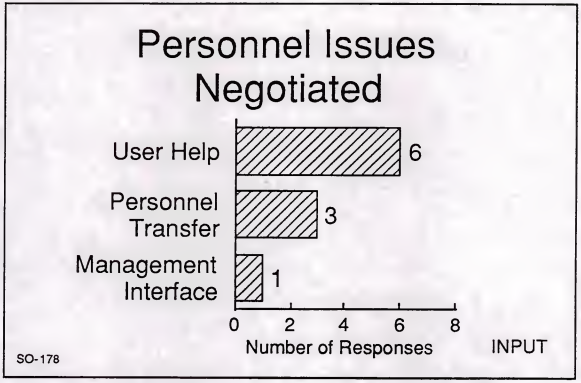
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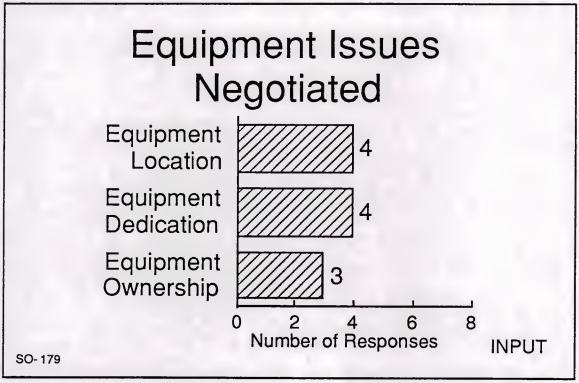
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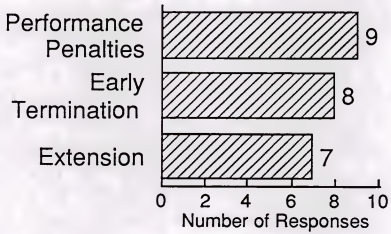


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Financial/Legal Terms Negotiated



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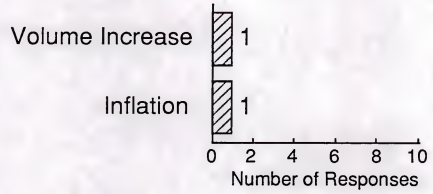
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Financial/Legal Terms Negotiated



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Negotiation Phase Lessons Learned

- Avoid early staff announcement
- Avoid complex contracts

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SO Procurement Process

Transition

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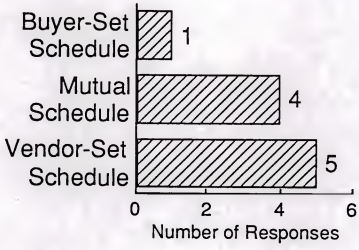
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Transition Schedule



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Personnel Transitions

- Guarantee vendor employment
- Transfer seniority and benefits

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Personnel Termination

- Provide good severance package
- Provide outplacement service

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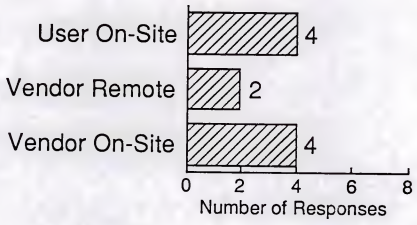
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User Support Transition



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Post-Transition Strategies

- Applications Operations
  - Weekly meetings
  - Monthly reports
  - Quarterly VP meeting

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Post-Transition Strategies

- Platform Operations
  - Daily communications
  - Executive to executive
  - Account manager on site
  - Ad hoc contacts

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Transition Phase Lessons Learned

- Minimize transition time
- Address employee morale problems

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SO Vendor Practices

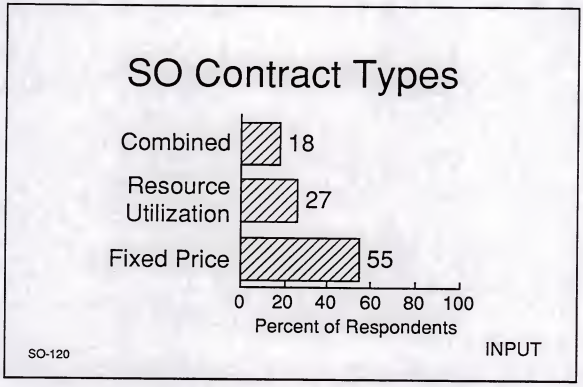
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SO-190

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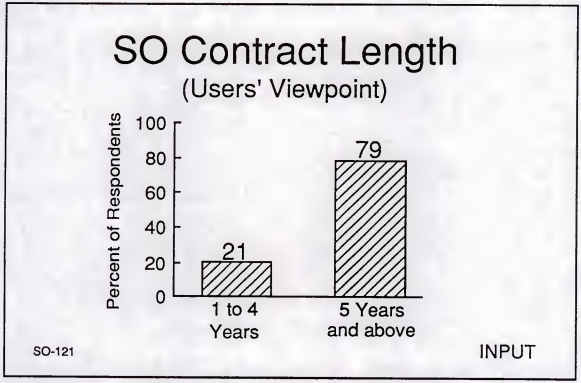
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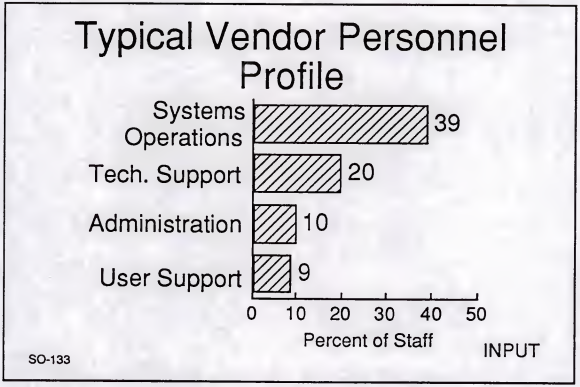
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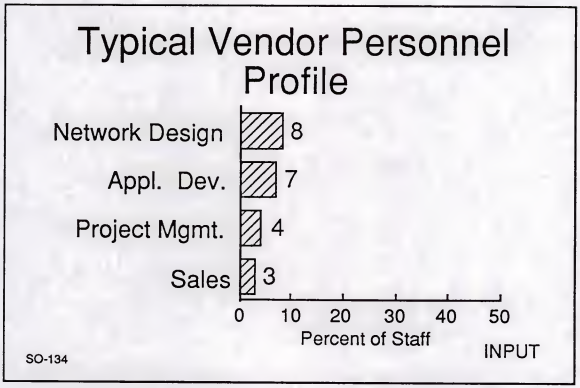
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Vendor Capabilities and Alliances

	% Have Capability	% Use Alliances
Computer operations	100	90
Applications/ development	90	60
Business consulting	90	50

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Vendor Capabilities and Alliances

	% Have Capability	% Use Alliances
Applications maintenance	80	60
Packaged appl. software	80	60
Disaster recovery	60	80

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Vendor Capabilities and Alliances

	% Have Capability	% Use Alliances
Equipment maintenance	50	70
Network management	10	30

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SO Vendor Trends

- Client/vendor relationship=partnership
- Vendor assumed risks
  - Acquire client hardware
  - Assimilate client staff
- Long-term relationships increasing

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SO Competitive Trends

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Leading SO Vendors, 1989

Vendor	Market Share (%)
Electronic Data Systems	16
Computer Sciences Corporation	5
Systematics	3
Affiliated Computing Services	3

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Leading SO Vendors, 1989

Vendor	Market Share (%)
Shared Medical Systems	2
Securities Industry Automation Corporation	2
Boeing Computer Services	2

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Vendor Motivations

Professional services	Follow systems integration contract
Processing services	Expand remote processing

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Vendor Motivations

Equipment manufacturer	Protect distribution channels
Others	Leverage functional expertise

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SO Vendor Classification
Professional Services

- Andersen
- CTG
- SAIC
- CSC
- Perot Systems
- McDonnell Douglas

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SO Vendor Classification Processing Services

- EDS
- SAIC
- Systematics
- GENIX
- STM
- Shared Medical
- SCT
- Affiliated Computing

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SO Vendor Classification Equipment Manufacturers

- IBM
- Unisys
- DEC
- CDC

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SO Vendor Classification Other

- Mellon Bank
- FMC
- Citicorp

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SO Vendor Issues

- Account control
- Potential conflicts of interest
- Profit maximization vs. performance

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SO Vendor Profiles

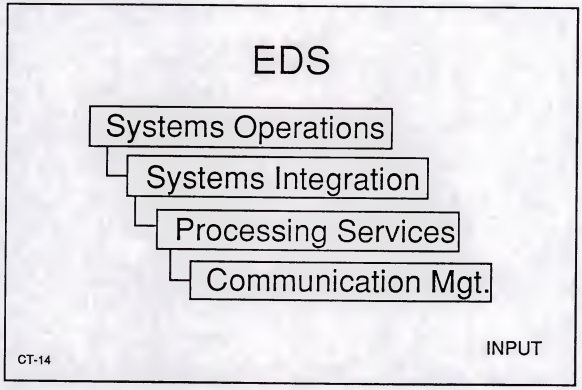
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EDS

- 1990 sales - $6 billion
- 60,000 employees
- SO market leader
- Large accounts focus
- Equity position emphasis

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EDS

- Targeted markets
  - Finance
  - Insurance
  - State and local government
  - Banking
- Recent moves into travel reservation

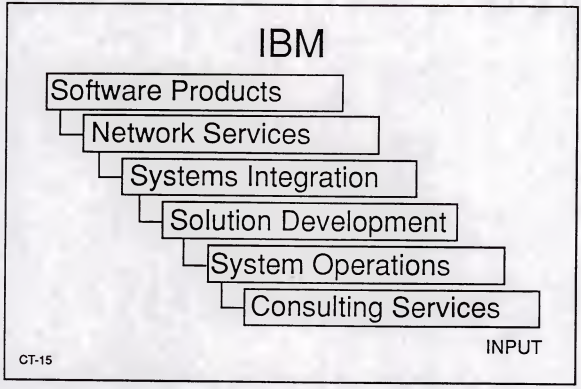
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IBM

- 1990 sales - $69 billion
- 374,000 employees
- World information technology leader
- New ISSD SO focus
- U.S. "trading areas" focus

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IBM

- Targeted markets
  - Federal government
  - Banking
  - Manufacturing
  - State and local government
- SO not integrated into "trading areas"

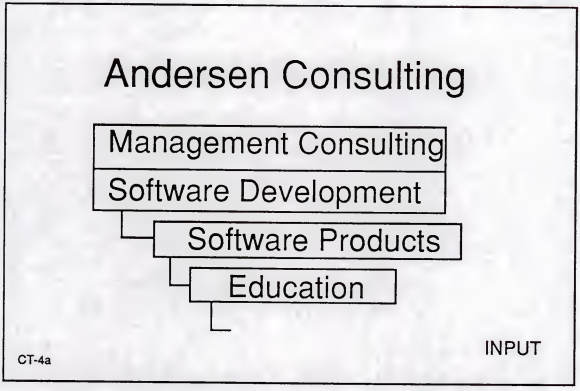
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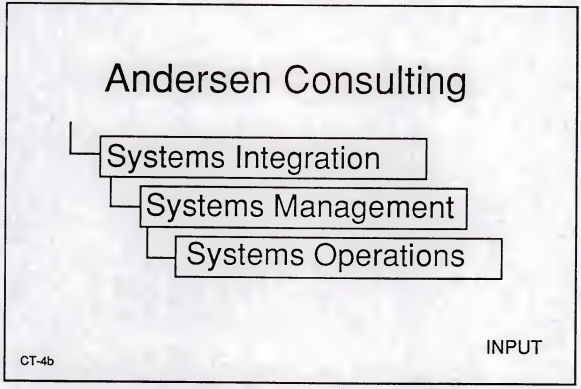
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Andersen Consulting

- 1989 sales - $1.5 billion
- 14,000 professionals
- Expanding consulting focus

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Andersen Consulting

- Targeted markets
  - Manufacturing
  - Medical
  - Energy
  - Consumer products
- Still has strong CASE orientation

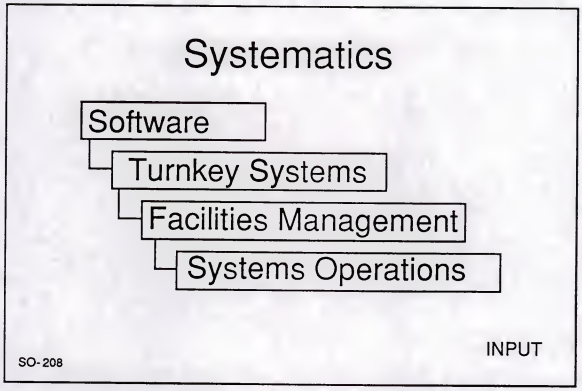
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Systematics

- 1990 sales - $255 million
- 3,900 employees
- 20+ years in finance/banking
- 948 banking/finance clients

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Systematics

- Targeted markets
  - Commercial banks
  - Saving and loans
  - Credit unions
  - Mortgage servicing

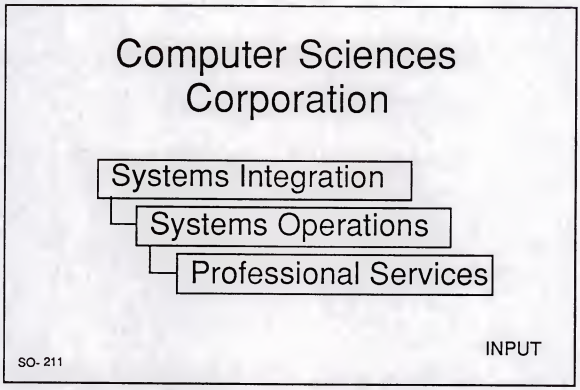
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Computer Sciences Corporation

- 1991 sales - $1.7 billion
- 22,000 professionals
- Index Group will provide
  - Reengineering
  - Application management
- Concentrating on "full service" SO

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SO-212

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Computer Sciences Corporation

- Targeted markets
  - Strong federal markets
- Resurgent interest in
  - Health and insurance
  - Distribution (logistics)
  - Retail distribution

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GENIX

- 1990 sales - $50 million
- 270 employees
- Recent merger with MCN doubled revenue base

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GENIX

- Targeted markets
  - Manufacturing
    - Process
    - Discrete
  - Engineering

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Vendor Strategies

- Full service providers
- Vertical market focus
- Target companies in transition
- Vendor-client partnerships
- Shared resource use

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Vendor Strategies

- Client assets purchase
- Client business investment
- Client staff hiring
- Global networks added

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Vendor Strategies

- SI projects lead to SO opportunities
- "Flow-through" prospects
  - -Add-on equipment
  - -Software
  - -Supplies

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Summary

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Summary

- Renewed SO acceptance
- Large vendors' market entry
- Track record importance
- SI stimulation of SO growth

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Summary

- Commercial sector emphasized
- Buyer/vendor partnership encouraged
- Buyers buy reliability/experience

INPUT

SO- 218

Notes

3/8/91

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Systems Operations
Markets and Practices

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1. Definitions

Systems Operations (SO)

SO-1

INPUT

SO Definition

Contracting for all or a major portion of an IS operation on a long-term (more than one year) basis

SO-7S

INPUT

(MATCH TYPE FACE to SO-8/SO-9) up

Systems Operations Characteristics

- Hardware Ownership
  - Vendor-owned
  - Customer-owned

SO-8

INPUT

Systems Operations Characteristics

- Method of Operation
  - Remote
  - On-site
  - Distributed

SO-8

INPUT

Systems Operations Characteristics

- Equipment dedication
  - Single customer
  - Multiple customers

SO-9

INPUT

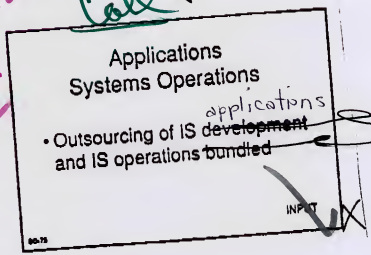
Systems Operations

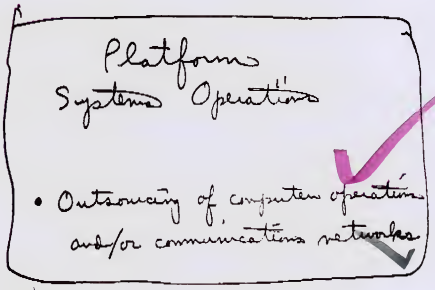
- Processing services
  - Vendor-owned equipment
- Professional services
  - Client-owned equipment

SO-4

INPUT

PETER'S CORRECTIONS USED FOR BIBLE





146

220

2. Market Trends (12)

147
219

SO Market Trends

Systems Operations Drivin orces
- Core business focus
- Business transition
- Expense reduction
- Capital preservation

SO-16 INPUT

Systems Operations Driving Forces
- Increasing complexity of operations
- Scarcity and expense of required talents
- Costs and problems of systems upgrades

SO-147 INPUT

Call

Perceived SO Inhibitors
- Personnel Concerns
- Employee loyalty
- Vendor employee turnover
- Acceptance by user community

PETE'S USED

SO-75 INPUT

use old version

MAKE HEADER LIKE THIS

Perceived ~~Systems Operations~~ Inhibitors
- Savings uncertainty
- Loss of control
- Service quality
- Organizational threats

SO-77 INPUT

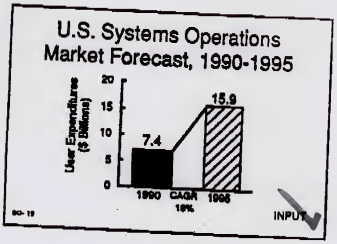
Major Buyer Issues ~~1990~~ changed again 1991

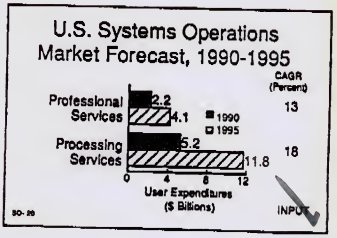
- Information systems ~~key to~~ business success
- ~~Need to~~ reduce operating costs/preserve capital
- ~~Challenge to~~ keep abreast of technology
- Lack of skilled personnel
- Concern about dependency ~~on~~ vendor

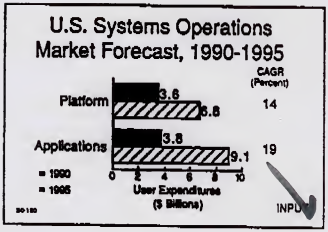
SOSP 4 Exhibit II-1

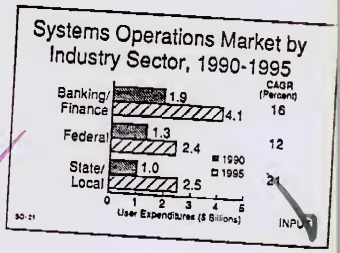
146 168 see last page (3)

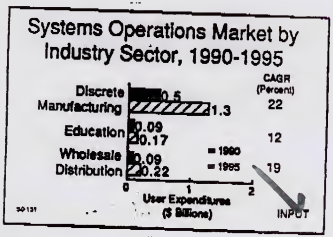


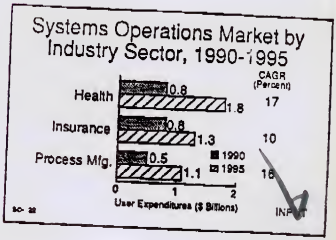

U.S. Systems Operations Market Forecast, 1990-1995
User Expenditures ($ Billions)
20
15
10
5
0
7.4
15.9
1990
CAGR 16%
1995
INPUT


U.S. Systems Operations Market Forecast, 1990-1995
CAGR (Percent)
Professional Services
2.2
4.1
13
Processing Services
5.2
11.8
18
1990
1995
0
4
8
12
User Expenditures ($ Billions)
INPUT


U.S. Systems Operations Market Forecast, 1990-1995
CAGR (Percent)
Platform
3.6
8.8
14
Applications
3.8
9.1
19
1990
1995
0
2
4
6
8
10
User Expenditures ($ Billions)
INPUT


Systems Operations Market by Industry Sector, 1990-1995
CAGR (Percent)
Banking/ Finance
1.9
4.1
16
Federal
1.3
2.4
12
State/ Local
1.0
2.5
21
1990
1995
0
1
2
3
4
5
User Expenditures ($ Billions)
INPUT


Systems Operations Market by Industry Sector, 1990-1995
CAGR (Percent)
Discrete Manufacturing
0.5
1.3
22
Education
0.09
0.17
12
Wholesale Distribution
0.09
0.22
19
1990
1995
0
1
2
User Expenditures ($ Billions)
INPUT


Systems Operations Market by Industry Sector, 1990-1995
CAGR (Percent)
Health
0.8
1.8
17
Insurance
0.8
1.3
10
Process Mfg.
0.5
1.1
16
1990
1995
0
1
2
User Expenditures ($ Billions)

5. Buyer Practices

149 169

5 0
Buyer Practices

5 0 Procurement Process
- Evaluation
- Negotiation
- Transition

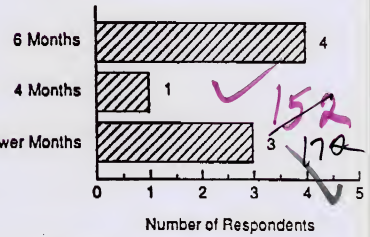
150 170

See EXHIBIT III-7 (5 0 P I 1)

151 171

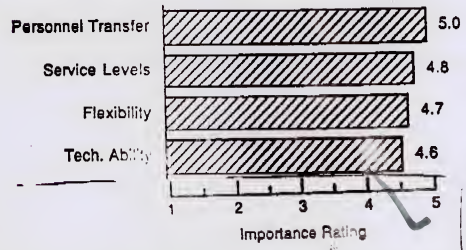
5 0 Procurement Process
Evaluation

Length of Evaluation Process



152 170a

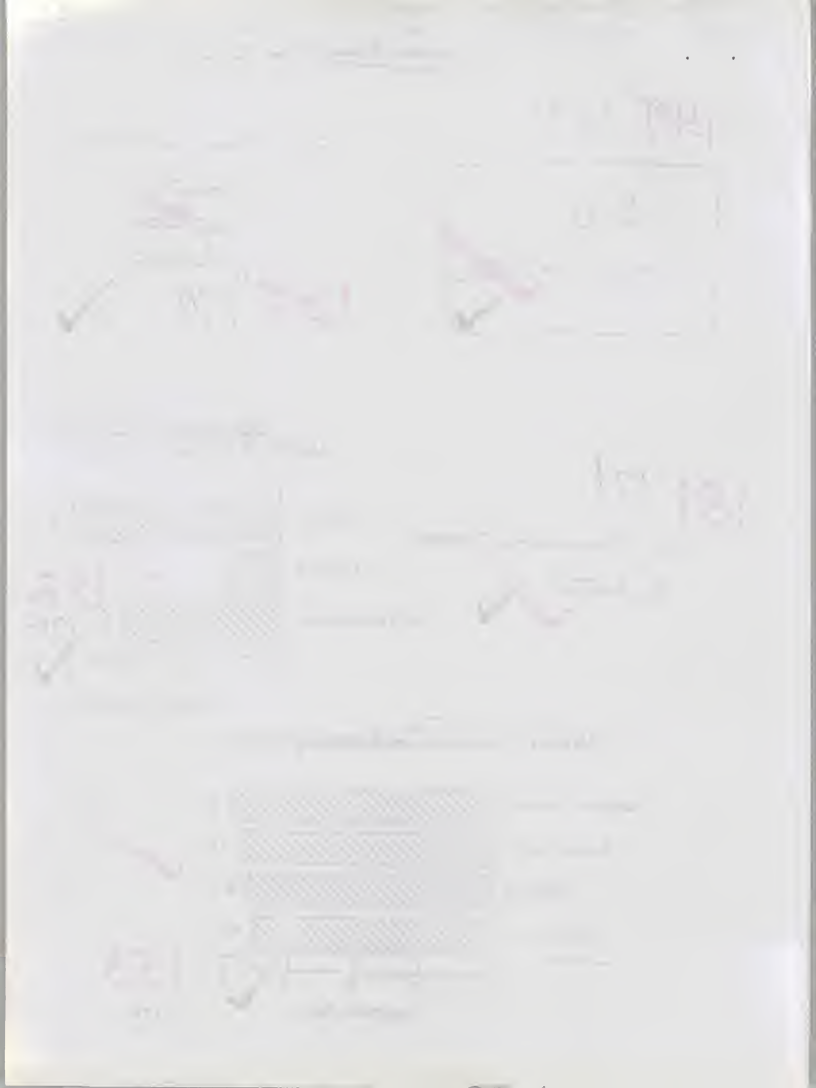
Vendor Evaluation — Importance of Criteria



option
from 5 0 P I 1
III-4

153 173

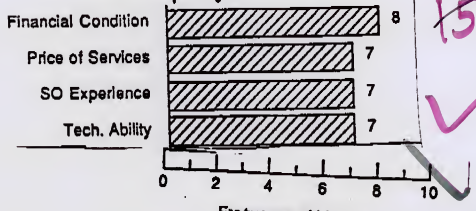
(5)



IV-5

Vendor Evaluation Criteria

Frequency of Mention



174 154

extract from SOPIA-IV-5

Number of responses

Evaluation Phase Lessons Learned 175 155

- Provide all information to vendor
- Request vendor cost data

SO Procurement Process

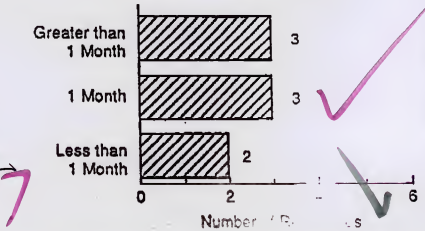
176 156

Negotiation

EXHIBIT IV-1

SOPIA

Length of Negotiation



177 157



delete

EXHIBIT IV-7 SOPII

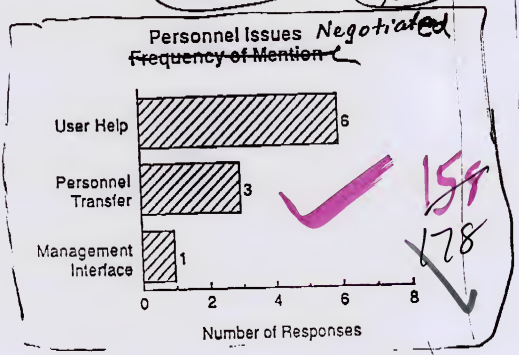
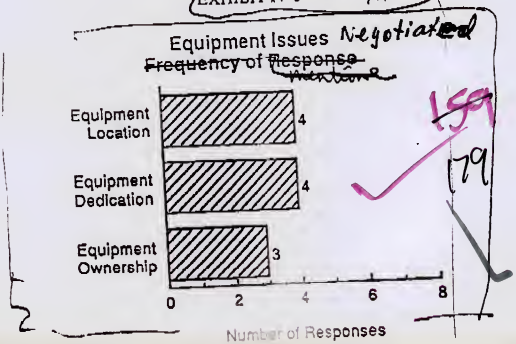
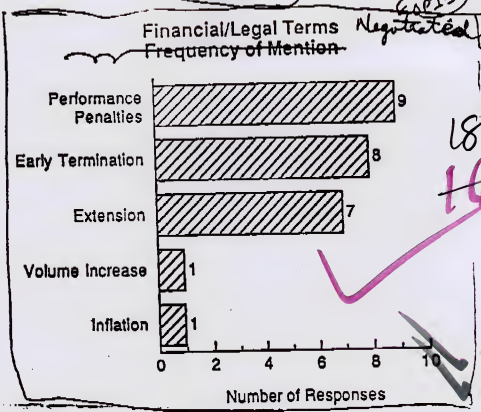


EXHIBIT IV-6 — SOPII



6

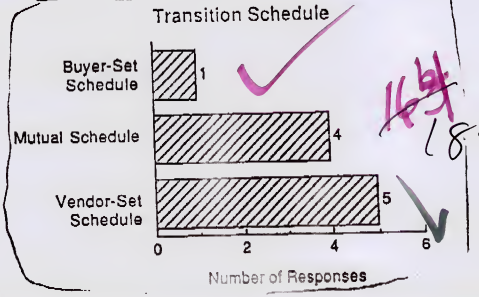
EXHIBIT IV-3

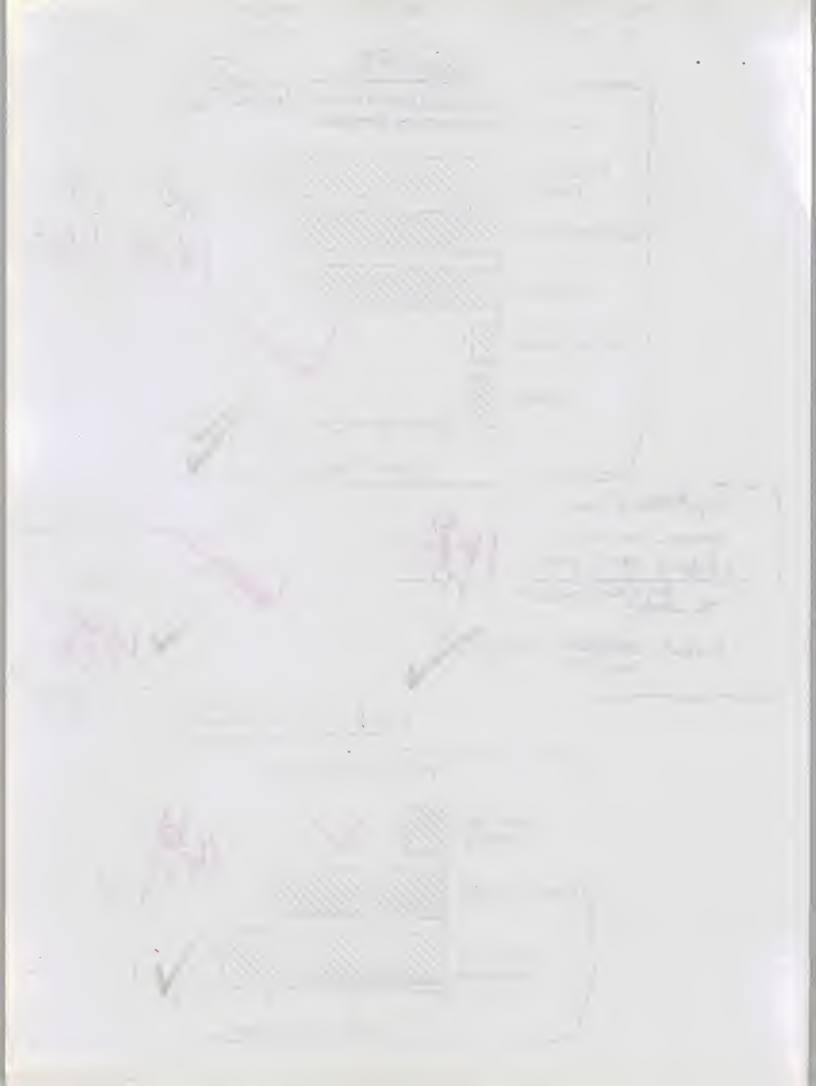


Negotiation Phase
lessons learned
• Avoid early staff announcement
• avoid detailed contract complex

SO Procurement Process
Transition

EXHIBIT V-2





PLACED IN TO PIGGLE

Transition

Personnel ~~Strategies~~

- Guarantee employment ~~with a~~ vendor
- Transfer seniority and benefits
- ~~Provide good severance package~~

INPUT

80118

Personnel Termination

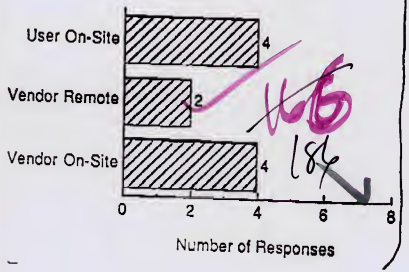
- Provide good severance package
- Provide outplacement service

165 166

EXHIBIT V-3

SOPIA

User Support ~~Provider~~ Transition



166 184

Post Transition Management Strategies

Applications Operations

- Weekly Meetings
- Monthly reports
- Quarterly VP Meeting

167 187

~~Exhibit V-3~~

~~Management~~ Post Transition Strategies

Platform Operations

- Daily Communications
- Executive to Executive
- Account Mgr. on -site
- Ad Hoc Contacts

188

Transition Phase Lessons Learned

- Minimize Transition time
- Address employee morale problems

189 169

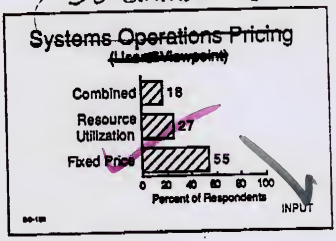


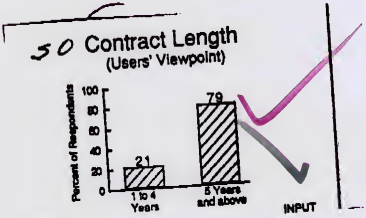
4. V e n d o r

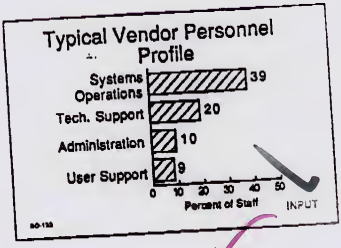
170/90

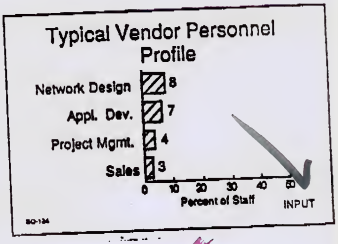
SO Vendor Practices

SO Contract Types













Vendor Capabilities and Alliances

	% Have Capability	% Use Alliances
Computer operations	100	90
Applications/ development	90	60
Business consulting	90	50

INPUT

SO-131

Vendor Capabilities and Alliances

	% Have Capability	% Use Alliances
Applications maintenance	80	60
Packaged appl. software	80	60
Disaster recovery	60	80

INPUT

SO-132

Vendor Capabilities and Alliances

	% Have Capability	% Use Alliances
Equipment maintenance	50	70
Network management	10	30

INPUT

SO-167

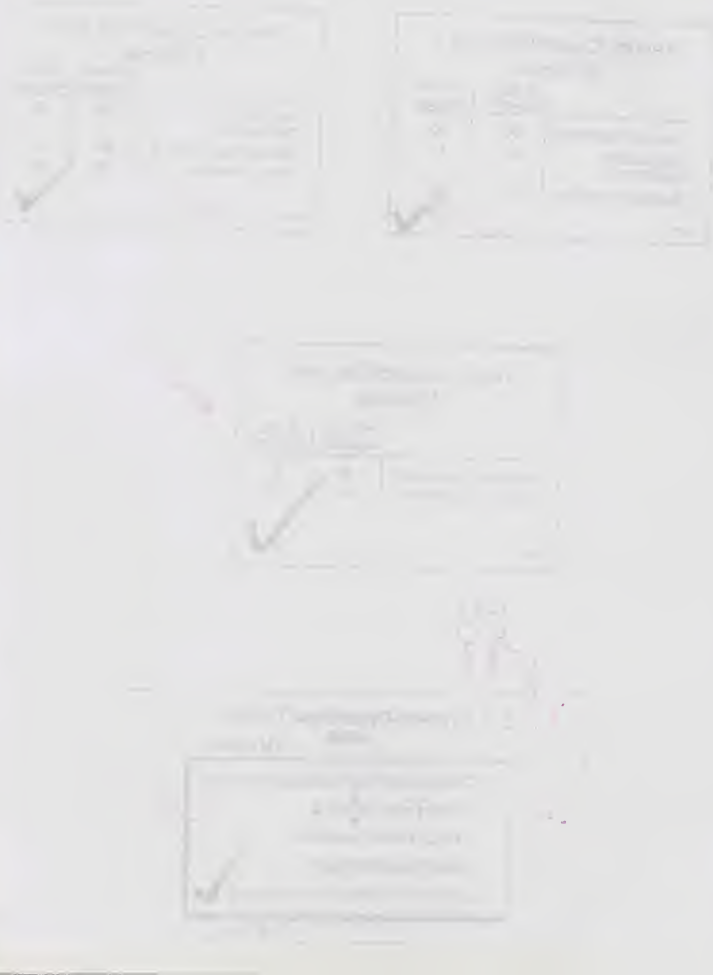
191

SO ~~Systems Operations~~ Trends

~~1990~~ Vendor

- Client/vendor relationship=partnership
- Vendors assume risk
  - Acquire client hardware
  - Assimilate client staff
- Long-term relationships increasing

SO SP 4 11



Competitive Trends

Leading ~~Systems~~ Operations Vendors, 1989

Vendor	Market Share (%)
Electronic Data ~~Services~~ Systems	16
Computer Sciences Corporation	5
Systematics	3
Affiliated Computing Services	3
Shared Medical Systems	2
Securities Industry Automation Corporation	2
Boeing Computer Services	2

S&P3

Vendor ~~Classifications~~ Motivation

~~Category~~	~~Motivation~~
Professional Services	Systems integration follow-on contract
Processing Services	Expansion of remote processing
Equipment Manufacturer	Protection of distribution channels
Others	Leveraging of functional expertise

S&P3



SO Vendor Classifications
Professional Services

Anderson
CTG
SAIC
CSC
Perot Systems
McDonnell Douglas

197

SO Vendor Classifications
Processing Services

RDS
SIAC
Systematics
CENTIX
STM
Shared Medical
SCT
Affiliated Comput

198

SO Vendor Classifications
Equipment Manufacturers

IBM
DEC
Unisys
CDC

199

SO Vendor Classifications
"Other"

Mellon Bank
Citicorp
PMC

200

SO Vendor Issues

- Account control
- Potential conflicts of interest
- Profit maximization vs. performance

INPUT

90-77

6. Vendor Profiles

SO
Vendor Profiles
181
201

EDS
Systems Operations
Systems Integration
Processing Services
Communication Management
CT-14
INPUT
in 1990 revenue

EDS
- # ~~in~~ 1990 sales $3.7B
- 60,000 employees
- SO market leader
- Focus on large accounts
- Emphasis on equity positions

182
202

EDS
- Industry leader in systems operations
- Aiming for very large accounts
- Industry-oriented markets
Target
- Finance
- Insurance
- State and local government
- Banking
- Recruit experienced
INPUT
183 203

IBM
Software Products
Network Services
Systems Integration
Customer Service
3rd-Party Maintenance
Solution Development
Applications Solutions
Systems Operations
CT-13
CT-15
INPUT

IBM 184 204
- $63B 1988 Sales
- 383,000 employees
- World information technology leader
- ESS D
- 8 "Trading areas" driven U.S. sales

New IBM SS Focus

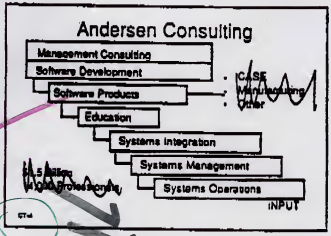
IBM

~~- Industry concentrations~~ Targeted Markets

- Federal government
- Banking
- Manufacturing
- State + local government

• SO not integrated into "today areas"

185 205



CT-4

Andersen Consulting

$1.5 Billion 1989 Sales

- 14,000 Professionals
- Consulting Focus Expanding

186 206

Andersen Consulting

- ~~Shifting to Industry Focus~~ Targeted Markets
  - Manufacturing
  - Medical
  - Energy
  - Consumer Products
- Still has strong CASE orientation

187 207

Systematics

- Software
- Turnkey Systems
- Facilities Management
- Systems Operations

188 208

Systematics

$255 M in 1990 sales

3,900 employees

20+ years in finance/banking

948 banking/finance clients

189 209

Systematics

Targeted Markets

- Commercial Banks
- Savings & Loans
- Credit Unions
- Mortgage Servicing

190 210

Computer Sciences Corp.

- Systems Integration
- Systems Operations
- Professional Services

191 211

Computer Sciences Corp.

- $1.7 Billion in 1991 Sales
- 22,000 professionals
- ~~Keane acquisition~~
- Index Group will provide
  - reengineering
  - applications management
- Concentrating on "full service" 90

192 212

GENIX

Computer Sciences Corp

Targeted markets

- ~~Continues~~ strong in federal markets
  - ~~Primarily professional services/SI~~
- Resurgent interest in ~~commercial markets~~
  - Health and insurance
  - ~~Tax and credit~~
  - ~~Professional services/SI~~

Distribution (logistics)
Retail distribution

INPUT

CT-8

193 213

- Facilities Management
- Systems Operations
- Communications Management
- ~~[illegible] Management~~

194 214

GENIX

- $50 million in 1990 sales
- 270 employees
- Recent merger with MCN doubled revenue base

195 215

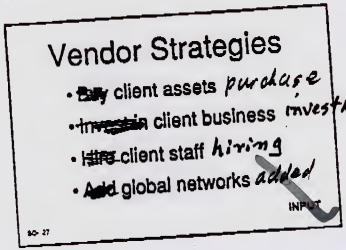
GENIX

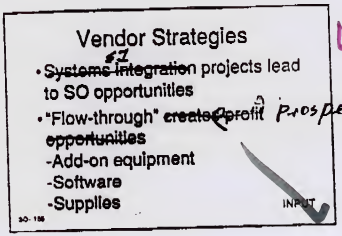
Targeted Markets

- Manufacturing
- Process
- Discrete
- Engineering

196 216


Vendor Strategies
• Full service providers
• Vertical market focus
• Target companies in transition
• Vendor-client partnerships
• Shared resource use
INPUT
SO- 26


Vendor Strategies
• Buy client assets purchase
• Invest in client business investment
• Hire client staff hiring
• Add global networks added
INPUT
SO- 27


Vendor Strategies
• Systems integration projects lead to SO opportunities
• "Flow-through" create/profit prospects opportunities
-Add-on equipment
-Software
-Supplies
INPUT
SO- 186

1. Summary

Summary

~~Conclusions~~ Summary

- Renewed acceptance ~~of systems operations~~
- Market entry by large vendors
- Track record is important
- Systems integration stimulates growth

INPUT

Summary

- Commercial sector is emphasized
- Buyer/vendor partnership encouraged
- Buyers ~~want~~ buy reliability/quickness

50-148

Major Buyer Issues

- Loss of Controls of IS
- Dependency on Vendor
- Vendor Industry Knowledge
- Reversing the Decision

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